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A PERCEPTIONAL VIEW OF THE COLEMAN MODEL OF TRUST

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SOM-Theme B Innovation and interaction

Abstract

In his classic model of trust, Coleman (1990) argues that the decision of an actor to trust or not is a function of the expected gain and loss involved. In this paper we show how actors who attempt to recruit others into network marketing employ narrative in manipulating the recruit's expectations. For example, we show how the costs involved in recruiting friends and family into network marketing are transformed into benefit through narrative strategies. Through the strategic use of narrative, recruiters change the recruit's perception of the parameters of the Coleman model and make perfectly rational behavior that was not considered rational before. In addition, we argue that recruiters use similar narrative on themselves in reconfirming the validity of their own previous decision to trust.

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Introduction

A popular approach in contemporary sociology, rational choice theory assumes that agents act to maximize (or, at least, satisfice) their utility functions (or some equivalent) in markets that operate with varying degrees of efficiency to coordinate their actions. These agents are assumed to be rational, meaning that they use appropriate means to their ends and behave according to a mathematically well-behaved preference structure. The nomological kernel of the theory is that behavior depends directly on relative prices: as a good (or the choice of particular behavior) becomes more costly in comparison to others, a person will purchase less of that good or engage in that behavior less frequently (Lindenberg and Frey, 1993).

In this paper we focus on one such behavior—the placement of trust. Trust is an important element of market transactions and, as suggested by rational choice scholars, the decision to place trust is subject to a rational choice-making process (Deutsch 1962, Coleman, 1990). In this paper we will start from the classical model of trust put forward by Coleman (1990) and study how ego's perceptions of cost and benefit can systematically be altered by an alter (or by ego himself), resulting in ego's placing trust in alter. In particular, we will provide several examples of narrative alters use in a situation of face-to-face economic interaction. As we will argue, these narratives not only influence ego's perceptions of the costs and gains associated with trusting alter, but also affect ego's perception of the probability that alter's promise of gain will indeed turn out trustworthy.

Our empirical setting concerns the efforts of members of a network marketing organization (NMO) to recruit new members into their organization. The decision to trust involves joining the NMO and invest time, emotion, and energy in it. It involves going door-to-door selling water filters and recruiting family and friends into the organization. Recruits often consider this as costly and risky and much persuasion is required on the side of the recruiter to turn the hesitant prospect into an enthusiastic recruit.

Throughout the paper, we will assume that ego is and remains rational in his consideration of whether or not to trust alter. In fact, as we will show, it is this very rationality that enables alter to influence ego into trusting him.

The Coleman Model of Trust

In the model of the perfect market, transactions are both costless and instantaneous, but in the real world transactions are consummated only over a period of time. In some cases this means that one actor makes a unilateral transfer of control over certain resources to another actor, based on the hope or expectation that the other's actions will satisfy his interests; yet he can only be certain at some time after he has made the transfer (Coleman, 1990: 91). The existence of such time asymmetry can introduce considerable risk on the side of the investing party. In many economic transactions, risks that the second party will not deliver as promised can be hedged by the use of formal contracts (e.g., Williamson, 1996). However, in most social situations other arrangements are necessary. In a lucid and thorough discussion of noneconomic transaction, Coleman (1990) suggests that the placement (or withholding) of trust is the appropriate social arrangement in these situations.

In a trust relation there are, at least, two parties involved: the trustor (who places trust) and the trustee (who is trusted by the trustor), both being purposive in their actions. According to Coleman (1990), the decision to place trust is analogous to the decision to place a bet. A rational actor will place trust if the chance of winning, relative to the chance of losing, is greater than the amount that would be lost (if trustor loses) relative to the amount that would be won (if trustor wins). Formally, ego places trust if the odd-ratio

$$(1) \quad p/(1-p)$$

is larger than the loss ratio

$$(2) \quad L/G$$

with

p = chance of receiving gain

L = potential loss, $L > 0$

G = potential gain, $G > 0$.

In other words, a rational¹ actor places trust when expected gain outscores expected loss:

$$(3) \quad pG > (1-p)L$$

In many social transactions actors do not know the true values of G , L , and p and have to rely on estimates. If possible, the sensible thing to do for the potential trustor is to collect as much additional information as possible on the potential gain and loss involved and the trustworthiness of the trustee. Information will have the effect of changing one's estimate of the probability of gain, that is, of moving one's estimate of the probability of gain as far as possible above or below the critical point at which the decision could go either way. The farther from this point the trustor's estimate of the probability of gain is, the greater will be his certainty that his decision is the correct one (Coleman 1990: 103). In addition to this information, trustor will incorporate past encounters with trustee into his perception of the true (or, close enough) values of G , L , and p . Coleman describes the various actions taken by potential trustors in their quest for reasonably accurate data to base their decision to place trust on.

In addition to actions trustor may take, the trustee may also engage in actions explicitly designed to lead the potential trustor to place trust. Coleman acknowledges that the trustee may have an incentive to manipulate the potential trustor's perceptions of the gain or the probability of receiving that gain and that manipulation is possible (for example, by a con artist or by advertisement), but only touches upon this in passing. In the current paper, we will explicitly elaborate on the actions a trustee can take to manipulate the potential trustor's perceptions and, thereby, manipulate the likelihood of the potential trustor to place trust in him. In order to do this, we need to refine Coleman's model. Many decisions to trust require ego to make

investments/costs that will payoff later (if alter turns out trustworthy). The potential gain (G), then, is the difference between the payoff/benefit (B) and costs (C):

$$(4) \quad G = B - C$$

with $B > C > 0$. Part of benefit B is obtained as a result of C . Cost C may turn into a loss if alter's promises turn out untrustworthy. Thus, with probability p costs C have a positive return ($G = B - C > 0$). With probability $1-p$ costs C become a loss. In some situations, potential loss L may include other sources of loss as well.

In this paper, we will analyze some of the narrative used to guide ego's perceptions of B , C , L , and p and furnish empirical illustrations of these manipulation strategies.² Interestingly, as we will show, such narrative is not only used in the trustee's efforts to make the potential trustor place trust in trustee, but also by the trustor himself, in an act to justify to himself his beliefs and past decisions. We will argue that the narrative used in both situations are remarkably similar.

The Coleman model has been viewed by rational choice theorists as an important tool for the study decisions of trust. Taking Coleman's model as a valuable starting point, we extend the model by analyzing narrative strategies that can be employed by a potential trustee to influence trustor's perception of the model's variables. Recently, Ziegler (1998) extended Coleman's model by focusing on expectation-based strategies an actor can follow in making an informed decision on whether or not to place trust. In particular, Ziegler analyzes how forecasting ability, decoding and information reliabilities, and learning processes aid an actor in his decision. In Ziegler's approach, the trustor is at the focus of attention, the trustor is where 'the action' is. In our exposé, the action occurs on the side of trustee, our focus is on the action an actor can take who wants to be trusted. As such, our paper discusses the other side of the coin.

To avoid cluttered sentences, we will usually write 'trustee' rather than 'potential trustee.' Similarly, we will drop 'potential' from 'trustor' and 'recruit.'

The context of the research: network marketing

Network Marketing—also known as multilevel marketing, structure marketing, or multilevel direct selling—is a form of direct selling.³ Network Marketing Organizations (NMOs) can be defined as direct selling organizations that depend heavily or exclusively on personal selling, and that reward sales agents for (a) buying products, (b) selling products, and (c) finding other agents to buy and sell products (Coughlan and Grayson, 1998).

The products or services sold through network marketing can be anything varying from soap and vitamins to personal insurance to jewelry, cars, and even houses. Network marketers (also called ‘distributors’) are independent contractors, not employees. They can determine retail prices, use any marketing material, operate from any location, organize meeting sessions, and so on. Their role in an NMO is twofold: they sell product and recruit new distributors.

NMOs rely almost wholly on independent sales agents to market their products, these products are rarely (if ever) advertised via mass media or found in retail outlets. The rate of growth of the NMO’s sales depends entirely on the success of their distributors force in selling the product and recruiting more distributors.

Network marketers earn income in mainly two ways. First, they make money by selling at a profit goods that they buy wholesale from a network marketing company; markups vary between 20 to 100 per cent. Second, the network marketers receive a commission on the sales of those they recruit into their network (who are called their ‘downline distributors’). Often, commission is earned on a downline multiple levels deep. Consider the example in Figure 1.

>>> Figure 1 about here <<<

Mary has recruited, among others, Marianne into her downline. Mary therefore receives a commission on Marianne’s successful selling efforts. Renee, Kay, and Akhbar have been recruited by Marianne and are at the first level of her downline. Thus, Marianne receives a commission on their selling efforts—and so does Mary. Although many compensation plans limit the number of levels upon which a

distributor may earn downline commission, it is not unusual for NMOs to offer commission up to six levels downline. This makes Mary eligible for commission not only by her recruits, but also on those of her recruits' recruits, her recruits' recruits' recruits, etc.

Any of the people recruited by Mary, and any other person "down line" from them (such as Kay and Renee) are part of Mary's "organization." While selling product is lucrative in the short run because it offers an immediate income, network marketers are encouraged to build their own organization, which will generate growing income in the long run. Much recruitment material of network marketing firms quotes J. Paul Getty's statement,

The key to wealth is finding a way to have one percent of the efforts of a hundred people rather than a hundred percent of your own efforts.

Indeed, the vast majority of participants see the building of an organization as their primary goal (Harden, 1987). When a particular level of success is attained, participants are granted higher formal positions. These positions carry with them incentives such as a higher percentage of profit from the sales of their organization, expense accounts, and health insurance. All participants start at the first position. There are no entry requirements.

While numerous popular books have been written about network marketing, academically oriented studies have been relatively scant.⁴

*The Industry*⁵

Direct selling is an ancient form of enterprise has been around for thousands of years (Biggart, 1989), but the first NMO (in the sense of our definition above) wasn't started until in 1941.⁶ It is estimated that over 40 million people worldwide today are involved in network marketing. NMOs like Amway, Mary Kay, Nu Skin, Usana, and Shaklee have been growing in importance; today 70 percent of direct sales revenues are generated by network marketing organizations (Coughlan and Grayson, 1998). A quarter of these 40 million people is located in the U.S. (primarily in the south). The

remainder of the sales force is distributed throughout the world, especially in Asia. It is a growing sector—"the most dynamic sector" (DiMaggio, 1990: 218). At present the industry generates \$25 billion annually in the United States and an estimated annual \$84 billion worldwide, growing 20 to 30 percent each year, enlisting members of one in four US. households. Amway, with sales of around \$5 billion annually, has been among the most aggressive in terms of international expansion, having entered over two dozen countries. Several NMOs are publicly traded on major exchanges, including NYSE, AMEX, and NASDAQ.

Three out of four people in the business in the U.S. are female. It has been estimated that more than half of all U.S. citizens have purchased a product or service from a direct sales company in the past (Biggart, 1989).

Amway was the leading American firm in sales volume in Japan at the end of the last century. Recognizing the power of network marketing, IBM, Sprint, Coca Cola, MCI, Colgate Palmolive, Chrysler, Rexall Drug, and Gillette in the United States, and Toyota in Japan, are now actively using different forms of network marketing or use existing network marketing firms to distribute their products. Network marketing, or related forms of direct selling, is the primary way cars are sold in Japan with 75% of new cars being sold in this manner (Biggart, 1989).

Although network marketing is a legal business and has emerged from a long history of direct selling, it still suffers from a stigma, particularly because of its association with the Ponzi pyramid scam and the Chain Letter.⁷ The resemblance of network marketing's payment structure to the illegal scams has enhanced the stigmas about the industry.⁸

Research Site

The data for this paper were collected in over a period of a year of observations and interviews in a network-marketing firm. We will refer to the NMO as INC. The firm mainly sells water and air filtration systems, in a variety of types (such as under-sink, shower, and car air-filters). The data described here was collected mostly at recruiting sessions in New York, New Jersey, and Chicago.

In contrast to most other marketing network firms, which sell most of their product to their own downline, the lion's share of INC's product is sold to people who are not

part of the firm. This is an important point for the present research, since it pressures the network marketers to continue to sell product to others rather than just supplying people under them. Moreover, since families require only a limited supply of water and air filters over the course of their lifetime (in contrast to consumables such as vitamins, cosmetics, and drugs) the network marketer has to continuously look for new customers. Since the continuous selling of water and air filters requires the network marketer to cover increasingly large geographic areas (since, after some time, an area becomes saturated with filters), most (long-term) money is to be made by recruiting others into one's organization. At INC, recruitment of new marketers may be more important to a network marketer's success than at other network marketing companies. This makes the use of narrative for increasing the pace at which trust is established in potential buyers and potential recruits perhaps more vital than it is in most other network marketing firms.

Examples of the use of narrative

The trust decision we study in this paper—the decision to join a network marketing organization—consists of a set of issues, each with specific costs, payoff, and potential loss. Recruiting a new member into an NMO requires a recruiter to gain the recruit's trust on several separate, but connected issues. For example, joining an NMO involves developing belief in the viability of the business, having to sell water filters going door-to-door, and being expected to sell to friends and family and recruit them into the business. In this main section we will discuss how recruiters use narrative to create trust with respect to these three substantive issues. Although recruiter's stories often primarily aim at one issue at a time, their stories tend to touch upon several issues in passing. The stories quoted below will therefore often contain elements of various issues simultaneously.

Selling the Business

To encourage new recruits to enter the business experienced network marketers give their “testimonials,” very much like the testimonials used in advertising. In many of them actors express their confidence in the company, manifested by the “miracles”

network marketers claim to have experienced with the products and with their business. The prevalent phrases used to achieve the belief in the business and the company include “business explosion,” “leader in the industry,” “trend makers,” “an exciting business,” “a fun business,” and “endless opportunity.”

A recurring theme in these testimonials is that, although the potential recruits may have doubts about the business now, they can be sure to get really into it later. There are several ways in which this message is conveyed in these stories. The most straightforward way is by including in the stories that benefits will be high and costs low (and may even turn out a benefit—such as doing one’s friends a favor by recruiting them). This can be done in the way Stuart, a network marketer from New Jersey, refers to the financial gain to be made:

This kind of business has its share of problems and I wasn't aware of that until it all happened. That's when you find all about it. My first two years my income has never been less on average about \$18,000 a month and I've made it as high as \$27,000 a month, net after expenses. The last year has been 8, \$12,000 a month, so overall I made about 170,000 a year on average. You might say that's fantastic. I expected to earn a lot more than that, I really believed I would earn much more then that. And I tell you right now, if I didn't believe I would earn more than that, why stay in this if you are going to work so hard. But still 160, 170, 200 thousand dollars a year is a nice income. I am spoiled. I want to make more than that. And most people *are* in this type of field.

In like manner, these testimonials often describe emotional or non-tangible gains:

How many people out there, I believe, want a chance to make a difference? Not just to have another job where they come home at the end of the day, they look at the mirror and wonder what did they really do? INC gives you a chance not only to help people financially but also literally to impact thousands of people's lives.

In other words, the network marketer not only has the great opportunity to have a positive impact on the world by selling his water filters, but has the chance of letting others benefit from this by recruiting them as well. Who would deny their friends such an opportunity? With G outweighing L to such a large extent, the probability of the story actually being true (p) can be low and it would still be rational to place trust in this business.

A more concealed and perhaps even more powerful way to enhance perceived benefits and decrease perceived costs is through narrative that conveys the depth and sincerity of the belief of the storytellers in the products and the business. For example, Biggart (1989: 118) provides a quote showing how the belief in the product helps a Mary Kay distributor to sell to women who can not really afford the products:

Sometimes I walk away kind of guilty, [but a top director told me] if I put some sunshine in her life and if she's not going to go home and beat her kids because she feels better about herself, then I have done something really worthwhile.

Testimonials often describe the growth in commitment the storytellers found would develop inside them after they had joined the business. Many of the stories we cite in this paper contain references to how strongly and deeply speakers have come to believe in the business (e.g., “You get caught in it. It’s like a religion.”). An example comes from a story told by a network marketer from Texas:

There are a lot of things you can sell. If you want to go out and recruit somebody to go to work for you and you offer him a job you might get him to work for you eight hours a day. Offer him an *opportunity* he might work for you ten hours a day. But if you can offer him a *cause*, something where inside he really knows he's doing something *significant* for *other* people, he'll work around the clock. It's not a job anymore, it's not work. He's committed to something important.

In this testimonial, we have italicized the most powerful words (the ones that make it work). With the narrative increasing in power along the way, this network marketer

makes his audience believe that joining this business and then recruiting others into one's organization characterizes doing a good thing. Being able to offer someone an "opportunity" sounds good to begin with and this is enhanced even further by making it into a "cause." As a member of this business, the network marketer is doing something truly "significant," not only for himself but—to top it off—for "other" people. Such high gains (G) make it hard to resist entering the business and makes it even harder to challenge the storyteller's high perception of p .

Another way in which this narrative operates is through its reference to the recruit's likely future. As we will argue later in this paper, testimonials containing statements about the future are potent because, among other things, they are difficult to challenge and create an urge in the potential trustor to start this future now, rather than wait and start it later.

The sharing of these stories enhances the trust and belief in the product and the business as doing a good thing. They enhance the perception of B , decrease C and L —including, but not exclusively, by transforming what was originally perceived as a cost into a benefit—and increase the perceived probability of success p . The following testimonial is given by Chen, a 40-year-old network marketer who emigrated to the United States in the early 1970's. He has a Ph.D. in hard sciences and was a professor at a college in Connecticut prior to joining INC. He is also a consultant in laboratories for chemical processes and describes the way he joined INC as follows:

In December 1990 my wife was diagnosed with asthma. She couldn't sleep at night and the doctor recommended that we get an air-filter. We started looking for an air filter and we found that the only filter we could try for a while was one, which we received through a distributor who gave us to try it for a week free. After using for a week, my wife started sleeping at night. I decided to look into the business. A lot of our friends who especially have children or someone with asthma and after I joined the business I let them use the products to see if it did anything to them. One of my friends who I shared the product with, had two children with asthma, and actually

used it. They bought the two filters and a few months later they were so grateful they wrote me a thank-you note. They write “thank you for introducing us to the INC air-filters, Brian and Mark are not suffering as much now.... They are sleeping better at night.... The money and time you saved us from the weekly doctor's visits has been very compassionate.”

He concluded:

And this is the kind of business you're in. You're helping a lot of people enhancing their quality of life and they are very happy to give you their money and thank you for it. I cannot see another business that you can have something like that.

The testimonial brings out the two points; first that the products are indeed of much help to the people he cares for—his wife, and his friend's children—and that the business actually helps others. Since one thing one likes most is to help one's friends and family, the dilemma of selling to and recruiting friends is transformed from a cost into a benefit. Moreover, taking the testimonial as is, Chen was persuaded to join this business or expressed interest in the business after two close people—his wife and a friend—told him, based on their own experience, that these were extremely helpful products. This type of story is powerful in enhancing the recruit's trust in the business (through increasing his perception of B and p , and decreasing perceived values of C and L).

Many of the testimonials gain additional persuasiveness through the setting in which these stories are told. Testimonials are often shared at convention-type settings with multiple potential recruits present, all accompanied by their recruiter. Communities of potential trustors tend to create greater perceived trustworthiness. The testimonials of one's respected acquaintances, other experienced distributors, and a speech by a revered founder carry great weight (Biggart, 1989). Convention settings have the effect of boosting joint belief through effective processes of social contagion (cf., Leenders, 1995) and effectively create groupthink (Janis 1972). When high

positive payoff is presented to the audience in such a way that it creates trust and belief in the individuals present, trust will be heightened by the enthusiastic interaction among the new recruits. In fact, new recruits realize the strength of this effect and surround themselves by believers and disinvest in non-supportive relationships. As one entrepreneur put it:

One thing you also realize when you first enter into this business—you want to surround yourself with people who are supportive. Even if they did not get into the business they may be supportive of you. Those people whom you approached, friends, family, whatever, who are not supportive of you, you stay away from them. Because you are vulnerable to them and they are detrimental to your success.

Selling Product

One of the reasons why potential recruits are often hesitant to enter network marketing is that they are uncomfortable with having to ‘sell product’. The act of having to go out and make sales gives many of them an uncomfortable feeling. To resolve this, many narratives avoid the word ‘selling’ but replace it with something else. Similarly, the word ‘recruiting’ is often circumvented. Instead of ‘selling product’, distributors ‘teach’ or ‘share.’ Instead of recruiting, they ‘share a business opportunity.’ Alternative phrases for recruiting are ‘duplication,’ ‘replication,’ ‘sponsoring,’ ‘showing the plan,’ ‘giving them a chance,’ or ‘offering an opportunity.’ Many of these terms—especially the word ‘sharing’—strip away the business connotation and make the story teller sound more like a “good friend” than like someone trying to sell his business.⁹ It transforms an economic act into an act of caring. Using euphemisms effectively reduces the recruit's perception of C. People who can not imagine themselves selling goods or recruiting through their social relations have no difficulty making a profit by nurturing others; often even with a considerable degree of passion.

Recruiting Friends and Relatives

A network marketer has to make three sales: she has to sell the business, the product, and herself. For some network marketers—especially those new to the business—

making three sales at once is difficult. They therefore are advised to initially target persons whom already know and trust them; in this way they don't have to sell themselves anymore. Behind this advice is the recognition that existing social relationships often provide an open, and often trusting, environment in which sales can be raised as a matter of course. New recruits are expected to make a list of everyone they know (family, friends, colleagues, neighbors, ex-boyfriend, one's children's teachers et cetera). Network marketers often refer to this as 'the list' or the 'warm market list.' This is the list to start recruiting or selling product to. As a network marketer interviewed by Clothier (1992: 164) says:

We have personally sponsored 40 people [...] they are all warm market friends. I've seen this again and again, the successful people have their friends in the business. I don't know one [successful network marketer] with a cold market business.

As sound as the warm market advice may be, the problem for network marketers is that the warm market consists of friends and relatives; recruiting a warm market thus means actively attempting to recruit friends and family into the network marketing firm. In other words, it requires them to use friends and kin to serve economic ends (Biggart, 1989:76). The traditional separation of personal and impersonal relationships in Western society allows for the development of informal relationships free of instrumental purposive action and for the development of instrumental relationships free of the need for non-instrumental relationships and motives (Silver, 1990). The need for a warm market pressurizes many network marketing recruits to break with this tradition and employ personal ties for commercial gain (Bloch, 1996; Marketing Consultants, 1996). For example, network marketer Jenny describes her uneasy feeling at a friendly social gathering that turned out to be a business gathering. She says:

I saw the industry and I understood it is a good industry but I wasn't sure whether it's for me and I wasn't sure how my background would apply to this. I have had sort of a negative experience with direct sales. I was once invited to a softball game and a picnic at a friend's

house and found out it was an Amway demonstration. And I wasn't real pleased at being deceived that way, so I didn't have real good feelings about network marketing, direct sales, or anything else.

Such negative past experiences make it hard for network marketers to do the same thing to *their* friends. Moreover, network marketers are aware of the fact that the price of rejection from a close friend yields a higher price (L) than a rejection from a distant person. As a young starting marketer put it:

First I contacted people I wasn't very close with. I figured since I am a beginner and I am afraid I will try somebody who's not that important to me. Because I saw it as less intimidating to contact someone that you really don't care much about. And if they say "no"—no problem. If he is close—it is a failure. I don't like to be rejected by my close friends or family. It means much more when close people reject you. I have to see them again. Distant people, well, you see them once in a while, no problem, you don't care.

A second example is the following description:

Some people tell you in the business: don't start with your friends. But be in touch with *their* friends. Your friends tend to cause you to be in a lot of anxiety. You say to yourself, will my friend think I am a jerk doing this?... you think you're screwing up your friendships.

Most network marketers realize strongly that if one lets down a friend once, the probability that the friend will place trust in her a second time is very slim or, at least, much lower. Moreover, after a friendship has been employed for commercial gain, and the network marketer has violated the trust put into her by a friend, it is likely that this will have an immediate and lasting effect on the friendship relation. It may even result in the ending of the friendship. In other words, the potential loss (L) is extremely high. Such high potential loss should make it extremely unlikely for $p/(1-p)$ to outweigh L/G . Still, many network marketers use their close friends and family as a

site for sales. Why? The answer lies in the narrative these marketers use to convince recruits to recruit their personal relationships. For this issue, C is the cost of bothering friends with the business. Probability p represents the chance that the recruiter is correct and friends will not be turned off but will be glad and grateful they are approached. Loss L is incurred when the recruiter is incorrect and friends are lost as a result of attempting to recruit them. Payoff B starts as a financial payoff, but recruiters add to that the emotional gain one receives by making one's friends thankful by offering them such a great business opportunity.

One of the most common narratives is the following one. The description comes from Edward, a relatively successful network marketer from New Hampshire. He says:

People are hesitant about their friends and family. But let's say you discovered a gold mine. You came upon it by yourself and there is more gold there than you can ever use. Would you go and share that with your closest friends? You'd take your relatives, your friends saying: "there is more here than I can have in my lifetime; I want you to have some of it." That's the mentality that people get who are serious about this business. We say it is not when you get into INC. It's when INC gets into you. When you join the program it is just mechanic, but when it is in you it becomes an emotional, habitual thing in your guts, in your body, and you want to share it. That's just human nature. You say, "God! They could really do well." You get caught in it. It's like a religion. Once you really believe, you approach those people closest to you because you honestly believe you're doing them good. I believed so strongly in this, I recruited my brother.

This story is a "master story" which is used repeatedly in different ways and contexts in INC and is also employed extensively in other network-marketing firms. Most potential recruits consider recruitment of friends and family risky and expect to lose their friendship—making C so high and so likely to turn into L , that it is not rational for the recruit to trust the recruiter and join the business. Through the

narrative, the potential cost of recruiting friends and family is transformed into helping them, or doing them good. In this fashion, C is decreased ('it is only a minor investment since you'll be happy to do it') and B is increased tremendously. Also, the story increases the recruit's perception of p , making it highly unlikely for C to become a loss. In sum, it becomes hard to resist recruiting friends into the organization. When INC gets "into you" one just wants to assist others to be able to "be doing them good."

This type of narrative is not idiosyncratic to INC at all. For example, a brochure for Usana, a fast growing publicly traded US-based network marketing company uses the same story structure:

If you care about your family and friends, you will want to share these products with them. Also, Usana offers an opportunity to help people secure their financial future and gain more time freedom to enjoy life. If you feel this is important to your family and friends, you may want to share it also.

In addition, recruiters often tell potential recruits that, although they may lose a few friends along the way ('but they are not *real* friends if they don't care about the business that excites you so much'), being in network marketing will enhance their friendships tremendously because as successful entrepreneurs they will become persons to whom people are attracted. This argument decreases L —because those who are lost are not real friends—and increases G —because many new friends will enter the recruit's life.

Reconfirming Oneself

Much of the narrative we cite in this paper leads a double life: it both serves to establish trust by the potential recruit and to reestablish or reconfirm trust held by the network marketer himself. While, deep down inside, active network marketers are aware of the risks involved—and are reminded of them by the outside world and by common belief—they use narrative on themselves to enhance and sustain their own trust: they are doing their friends and family members a great favor; a favor which

they should not deny their friends. And they reconfirm to themselves that the friends they do lose are worth it. Says Alex:

Some of my close friends got turned off. But you run the risk because you see the rewards are so great.

The following story told by network marketer James, shows how he for himself reconstructs the cost of being in the business into a benefit. He says:

I was looking for something but I was not looking for something. I had the background of being self-employed. I was burned out in the company I was working for. I was president of a company in New England. I saw it as strictly part-time. What I really wanted was another source of income outside of the industry. I wanted more money coming from something else. My second motivation was my two sons. I thought if I could start this business over on the side, maybe I could get them involved and they wouldn't have to go work at McDonalds or Burger King to earn a living to get through school. I used INC's 500 finance plan. I put \$300 down. That's how conservative I was. I really wrestled with this business. Because in 1973 I had been in Amway previously for two years. So my interpretation initially of Multi-Level Marketing was very negative. Not because I didn't make any money but I worked very hard to make only a tiny bit of money. So my interpretation was of running around getting friends and relatives and neighbors involved. And I didn't want to do that.... When I saw the product [of INC] I thought this is universal.... I was a CEO of this company and doing INC part-time when I got a phone call from the chairman of the board. It was a New York based company and he said "James, we like you a lot, you're doing a great job but we have decided not to work in New England anymore. We want you to head up our worldwide marketing operations and live in New York City to do that." And they doubled my pay. I said, what a great company, great people, what a great

opportunity, but when I hung up the phone I knew INC had a future and I wanted to take control of my future. I called my wife and said, “Ruth, we have to make a decision.” We didn't want to live in New York City, we didn't want to take the boys out of school. They were in special education. All I had was INC and I went full time.

It is a decision of great consequence for a CEO of a company to change his career and start his network marketing venture. The investment (C) and potential loss (L) are enormous. But James reconstructs these into a likely high payoff: not only does INC have a great future—and James with it—and does INC allow him to take control of his own future, it also allows him and his wife to be good parents and let their children stay in their school. James even plays down the negative experience he had at Amway. In effect, by redefining what could be considered a cost into a gain and by increasing his estimate of p (“INC has a future”) it becomes perfectly rational for James to quit his job and join (and stay with) INC.

Narrative Affecting p , L , and G

In this paper we extended Coleman’s model of trust (equations 3 and 4) and provided examples of how perceptions of its elements can be altered by both trustee and trustor with respect to certain substantive issues. As we discussed in the beginning of the paper, an actor places trust in a trustee when the expected gain to be made by trusting, weighed by the odds of actually receiving that gain in the future, exceeds expected potential loss, weighed by the odds of losing (see equation 3). This implies that trustee can focus his strategy on altering trustor’s perception of L , G (through B and C), and p , either separately or jointly. We will discuss these options below, referring to the narrative presented earlier in this paper.

Changing trustor’s perception of p

Classic probability theory tells us that the probability of receiving the gain prospected by trustee is determined by the ratio of the amount of relevant favorable information to the total amount of relevant information held by trustor:

$$(5) \quad p = \frac{\text{amount of relevant favorable information}}{\text{amount of relevant information}}$$

This implies that an alter has at least three options that will increase the likelihood of becoming trusted by ego. First, alter can add favorable information to the equation; this will increase both the numerator and the denominator—the denominator increasing relatively most—and increase ego's estimate of p . In many cases, this will have the added advantage of increasing the perceived value of B as well. Note that this 'new' favorable information need not need new to ego at all. From equation (5) it follows that ego bases his estimate of p on the information he deems relevant. If alter can make other information relevant—without it having to be new—it will increase ego's perception of p . A related way is to make negative information less relevant. For example, in his story James refers to how much he had wrestled with the business because of his previous negative experience at Amway. Jenny voiced a similar concern in hers. Since most initial estimates of the risks involved in network marketing potential trustors have are based on hearsay and previous experiences, and thus most likely refer to *other* network marketing firms, James acknowledges trustor's initial low estimate of p (and high estimate of L) by connecting it to *another* firm. In other words, he relates the validity of the negative information to Amway and stresses that INC is not Amway—the negative information thus loses validity with respect to INC. By removing the relevance of part of the negative information, James reduces the denominator in (5) and thus increases trustor's estimate of p .

The second option entails redefining negative information into positive information (this strategy simultaneously redefines trustor's perceived cost into a benefit). A third way in which the perceived odds of success can be increased is by making the relevant favorable information more "realistic." By making the story fit more closely with the beliefs and experience of trustor, trustor will understand the story better, believe in its truth more, and weigh it more heavily against other information. For instance, as one entrepreneur described his history in the business:

My overall history of the business is very realistic. I am not by any means a superstar but I am going to be. A superstar I am not; I am

trying to find myself for the last years. Success is important but not as important as staying in the business; as the longer you stay the greater your chances for success. The odds of success are with you.

Such a story will work favorably on potential recruits who do not consider themselves superstars and will not work (or less strongly) on recruits who do think of themselves as superstars. The story is useful either way, but the former group of potential recruits are likely to attach a higher weight to it (“even without being a superstar, which I am not, I can still be successful”) than the latter group. Another example of a story that follows this strategy, among some other strategies, is the story about Tray told by Peter (below). Peter’s story adds realism to the promises of great financial and emotional rewards to be made in the business. The recruit listening to Peter’s narrative is likely to attach more weight to them.

Changing Trustor’s Perceptions of L and G

An evident strategy for trustee is to provide the potential trustor with new or stronger insight that increases trustor’s perception of *G* or decreases trustor’s perception of *L*. Stuart’s story did this by emphasizing how high the financial return from the business is. The stories that refer to INC being a cause do a similar thing by emphasizing high emotional return. The strategy is also manifested in the numerous success stories of network marketers, where grand pianos, golf courses, and other riches (such as the “brand new fax machine, the brand new drier, and washer” featured in Peter’s story below) play a role. Also, see Chen’s story in which he describes of how much help INC’s product was to his asthmatic wife.

Second, trustee can redefine costs into benefits. Consider, for example, the stories that turn the cost of recruiting friends and family into the benefit of doing them a great favor. Edward makes this statement in a very powerful fashion: you are not bothering (*C*) your close friends by recruiting them at all: you are sharing with them a gold mine (*B*). The Mary Kay marketer reconstructed the emotional cost of selling product to women who can’t afford to buy the product into the benefit of having put sunshine in their lives. James transformed the cost of giving up his job for a

financially uncertain future in network marketing into the benefit of becoming a good parent.

Both strategies often simultaneously increase trustor's perception of *p*.

Enters the Trustworthy Third Party

Since potential new recruits (the potential trustors) often initially do not know the recruiter (the potential trustee) personally, their belief in his trustworthiness may be low at first; the trustee still needs to sell the product, the business, and himself. Since trustor often has no means to assess trustee's track record—and thus assess the true value of *p*—a trustee often relies on a trustworthy third party to do his bidding. This third party need not be physically present in the actual meeting at all. In fact, trustor need not even know this third party personally. This narrative works as follows. First, trustee introduces a third party to the story; this third party plays the role of someone trustor would probably be willing and ready to trust. It is not important *who* this third party really is, what is important is the *role* this party plays. This can be the role of a family member (typically a spouse or parent), a friend, or an unknown person who happens to look and sound like trustor. As featured in trustee's story, the third party voices the concern and disbelief trustor himself has. To trustor's relief, this third person then finds these concerns—which, of course, were presented as understandable—unnecessary. In fact, the third party turns out to be happy to have trusted trustee. Since the third party and trustor are so much alike, or because trustor has trust in someone like the third party, this narrative works as a powerful agent in shaping trustor's perceptions of trustee's trustworthiness. The story told by Chen is a good example of this narrative strategy. The third party here is his wife. Who wouldn't trust his own wife? It was Chen's wife who was so happy with the product; only because of her did he enter the business. Chen in fact asks the recruit to trust his wife instead of Chen; she ends up the one endorsing the product. Chen then repeats the procedure by introducing friends with asthmatic children. Who would not trust the judgment of one's friends, especially if they say how much the product has helped their sick children function better? As we argue, for this type of story to work it is not necessary that the recruit knows Chen's wife and friends. It works because most people have a positive and trusting belief in their own wife and friends.

In the next example, Peter, a 23-year-old network marketer from Gainesville, Florida, uses this narrative strategy to affect the audience's perception of *p*:

I sponsored Tray, and he was excited about the business but didn't have self-discipline in any way shape or form. He was going partying, getting drunk. He works in a meat freezer. Sleeps until noon, goes to work at one, and then comes home at about nine o'clock, then he goes partying until five o'clock in the morning. He meets a lot of people, he knows everyone in Gainesville. He could make a lot of money in this business, a hell of a lot more than the ten fifty an hour that he is making in the meat freezer. I still keep in touch with him, talk with him, and go to lunch with him. It is important for me to stay in touch with him on a social basis even if he doesn't want to do the business. He has nothing but praise for the business; he just can't do it because he has endless excuses. "Oh, I am too tired." "You just have to know the right people," and so forth. But what will make him self-disciplined is to see somebody like myself make a lot of money or Brian [a joint friend] make a lot of money and really not be able to avoid being pulled into the business because the people that he respects and the people that he knows are making so much money that this is something that he will have to take another shot at doing.... I stay around him so he can see that what I am doing is not so difficult, so that he can see the brand new fax machine that I just bought, the brand new drier, and washer that I just bought, so that he can see what I am doing on a daily basis.

In addition to reiterating that the income to be made in this business is good (*B*), Peter's story also makes the odds of success (*p*) more credible. Most people will have a hard time buying into the story that money will come pouring in without any real effort necessary on behalf of the recruit ("nothing for nothing"). The way this story makes the business look more trustworthy is through third party Tray, who has every opportunity for making a high *B*, but is not willing to invest any energy (*C*) in it. The

story says that, although there is a high payoff to be made (incorporated into the story through the brand new fax machine, the brand new drier, and washer that Peter just bought), one does need to invest at least some time and energy in the business before making it. Since this is in concert with common belief, it increases Peter's trustworthiness. Third party Tray represents the kind of person most members of the audience know. Mentioning other third party Brian shows that there are more people than just Peter who are making a lot of money off of the business in Gainesville. The fact that the recruit may not personally know neither Tray nor Brian is irrelevant for this narrative strategy to work.

The Strategic Use of Time

In many stories, the use of a temporal component adds another dimension to the strategies discussed above. There are three ways in which the use of time plays a role in the strategic argument. First, by referring to gains and successes that lie ahead, it becomes impossible for trustor to objectively test the validity of trustee's arguments. Claims about the amount of money made by members of the organization over the past years can be checked,¹⁰ but trustor has no way to assess with certainty whether trustee's claims about the future are actually true (in fact, trustee himself can not even be fully certain of them). In other words, trustor can not prove trustee wrong.

Second, most people prefer gain made presently to gain made in the future. When trustee tells trustor about the bright future that starts as soon as trustor joins the organization, it becomes to trustor's (emotional) advantage to join the business now rather than later.

Finally, since it is commonly believed that 'it takes time to develop trust,' many stories employ a time sequence that describes how the network marketer was able to gradually increase his trust in the business. These stories are typically built up around constructs such as "at first.... and then... ." The reason this works is that many potential recruits at first are reluctant to join the organization due to an initial high estimate of L and a low estimate of p . The storyteller acknowledges this by starting his story with remarking that he himself at first had been reluctant as well. James' story is a good example. In his story, he explicitly acknowledges how little trust he had had in the business *at first* and how that had manifested itself by only putting

down \$300 (“that’s how conservative I was. I really wrestled with this business.”). *And then* he found out the business was great and the rewards even greater. The “and then” part of the story often combines the eventual belief of the narrator in the business (“INC got into me”) with the financial (“I made about 170,000 a year on average”) and emotional gains (“They write: thank you for introducing us to the INC air-filters, Brian and Mark are not suffering as much now.... They are sleeping better at night....”). Since the recruit can identify himself with the first part of the story (“yes, I am reluctant too, just like you were”) he will be more likely to be carried along with the storyteller and realize that there really is no reason for reluctance. Especially when a third party plays a role in the story—such that it was through a trusted third party that trustee came to realize the business was a rewarding one—trustor will more easily buy into the future painted to him by trustee.

Conclusion and Discussion

In this paper we discussed the alters can assist actors in their rational choice of placing trust in them. Starting from the model suggested by Coleman (1990), we have argued that trustees can strategically alter trustor’s perception of the benefits, costs, and probability of success involved in the decision to trust (and take the ensuing action concerned). The basic argument is as follows. Since Coleman suggests that trust is placed when the expected gain outweighs the expected loss, the decision to trust can be altered by altering these expectations. The way in which this is done is by means of manipulating the information available to the potential trustor. If trustor had every piece of information relevant to the issue at hand, and this information were established objectively and irrefutably, then trustor would be able to make an informed and objective choice. However, such objective information is rarely available. As a result, interpretation differences abide. This provides trustee with the opportunity to reconstruct a negative interpretation into a positive one. It also supplies trustee with the chance to convince trustor of the irrelevance of information trustor initially believed to be relevant.

Moreover, a potential trustor often has no means of collecting all relevant data in the first place, objectively or not. As a consequence, trustee can feed trustor

with additional (relevant and positive) information that tilt the balance toward trusting.

Despite the manipulative strategies employed by trustee, trustor's final decision of whether or not to place trust in trustee is and remains entirely rational. It is fully rational to collect additional information when one realizes that the available information is incomplete; even if the source of the additional information is likely to be biased. Since trustor realizes the bias in trustee's representation of reality, trustor will take this into consideration and perhaps weigh this new information less heavily. Since trustee, in turn, realizes this, he uses several narrative strategies to dispose of this alleged bias. One of these strategies involves the use of time in the story. By following a "at first...and then..." structure, trustee starts with acknowledging trustor's reticence by telling trustor he initially had felt the exact same way. With rapport being created in this way, the "and then" part of the story allows to take away trustor's negative thoughts and gradually transform them into positives. A second strategy involves the use of trusted third parties in stories. These third parties effectively take over trustee's role of conveying the information to trustor. Since these third parties are typically trustworthy, trustor now learns the story from someone he trusts and is not biased; trustee just channels the words.

One of the interesting findings is that both recruits and recruiters use the same strategies. In the same fashion in which recruiters linguistically transform costs into benefits in an attempt to flip the balance of placing trust toward trusting, recruits use this strategy on themselves to keep their own trust up. For example, the stories told by Alex and James—which partly served to reinforce their own trust in INC—contain the same narrative ingredients as the testimonials given by those wanting to build trust in potential recruits.

Above, we argued that the decision to join a network marketing organization consists of a set of issues, each with specific costs, payoff, and potential loss. Recruiting a new member into an NMO thus requires a recruiter to gain the recruit's trust on several separate, but connected issues. Although we have provided examples of narrative used for creating trust for three such issues separately, it is not the case that every single issue involved in the overall trust decision needs to have a positive

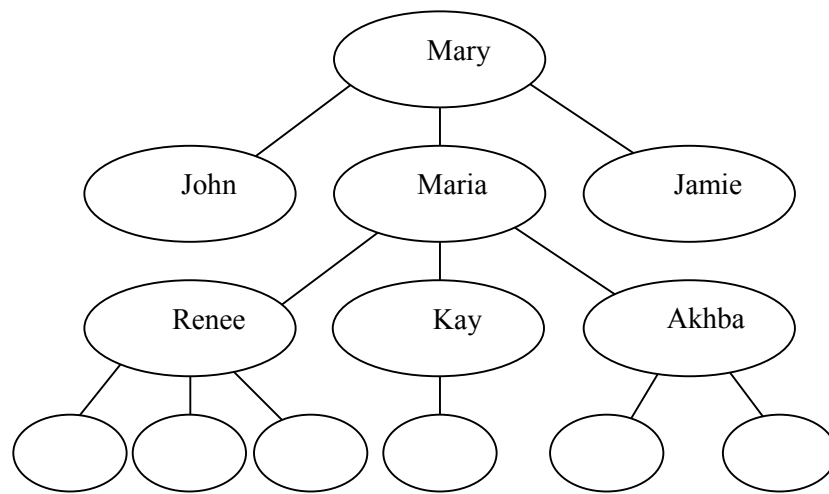
trusting balance. A slight negative balance in the recruit's perception of equations (1) and (2) with respect to one or a few issues, can often be offset by a large positive balance in other issues depending on the relative weight the recruit attaches to these issues. For example, a recruit who is still somewhat uncomfortable with recruiting friends and who does not fully trust the recruiter's statement that his friends will actually love him for sharing the business with them may still decide to join the business since the overall financial payoff is so high. Often, recruiters tirelessly attempt to increase the recruit's perception of the financial benefit of the business so as to offset delicate hesitation with respect to other issues. These recruiters expect recruits to eventually 'fall' for the financial payoff and be willing to take the risk regarding recruiting their friends. Whether this strategy works depends on the recruit's preference structure.

The U.S. is not alone. There are 20 million network marketers in Asia. Little Malasia alone has more than 800 network marketing companies operating today. Mexico, Canada, Australia, New Zealand, and Europe are all heavily involved in network marketing. This raises the question of the generalizability of these strategies across cultures. All of our examples involve recruits of an American network marketing firm. Not all of these recruits are Americans, but they live and work in an American culture. It is beyond the scope of this paper to study the use of these narrative strategies in different cultures. In fact, one may argue that Coleman's model of trust may not be equally applicable for modeling the placing of trust in cultures dissimilar to North American ones. We will leave these questions to future research.

In an early section of our paper, we referred to Ziegler's (1998) game-theoretic model of how the reliability of expectations affects the placing of trust by a potential trustor. In our paper, we showed how trustee attempts to shape these expectations. Although Ziegler's model and our discussion are not necessarily entirely compatible, it seems fruitful to connect such lines of research. This could yield a rich theory of how an actor may attempt to shape expectations in a potential trustor and how this trustor may rationally respond to these changing expectations. The test of such a theory should ideally be based on mathematics (e.g., through game theory) and empirical real life settings. This will both provide insight on how potential trustors

rationality behave in situations of decision making under uncertainty (the side of the equation most researched by sociologists), but also in the type of strategies—and the conditions of their success—actors can use to effectively shape expectations and become trustees.

Figure 1
Multilevel Structure of a Network Marketing Organization



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FOOTNOTES:

¹ Note that under this model it is assumed that the rational actor follows the behavior that maximizes his utility under risk; other (rational) decision strategies are not included. For instance, a risk seeking actor may prefer that alternative which maximizes his potential gain, irrespective of the potential loss balanced against it. Alternatively, risk averse actors may prefer to minimize maximal potential loss. These strategies can certainly be argued to be rational, since they entail the maximization of utility on the side of the potential trustor. In the current paper, we will limit ourselves to the model proposed by Coleman. Our findings can be easily translated to the situation in which alternative decision criteria are applied by trustor.

² We stress that we do not, in any way, want to pass judgment on trustees' actions. Although the word 'manipulation' may have a negative connotation, we do not want to imply that any of the trustees featured in this paper deliberately act deceptively. It is not our intention to challenge or judge whether the stories told by potential trustees are true or to what extent the actors telling them believe in the truthfulness of the stories.

³ Direct selling should not be confused with terms such as direct marketing or distance selling which may be described as an interactive system of marketing that uses one or more advertising media to effect a measurable response and/or transaction at any location, with this activity stored on a database. Some commonly known types of direct marketing and distance selling techniques are telemarketing, direct mail, and direct response. Although direct selling organizations occasionally use some direct marketing or distance selling techniques and technology to enhance their businesses, the primary difference between the two methods of marketing is the face-to-face, or personal presentation that is always an aspect of the direct selling relationship (World Federation of Direct Selling Associations, 2001).

⁴ In the first in-depth research of direct sales organizations (DSO's) in America, Biggart (1989) addresses the historical developments of the industry. She describes how family entrepreneurship and the American dream ideology come to play in the three network marketing organizations she studied. Harris (1992) examines "the extra-economic aspects" of Amway and presents an alternative to the view that Amway can be reduced to an ideology" (1992: 1). As he contends, "Amway is first and foremost a business." Bhattacharya and Mehta (2000) study the socialization processes in NMOs. Three studies examine direct selling from a network approach. Green & D'Aiuto (1977) attempt to explain Amway's popularity through characteristics of postindustrial society. Frenzen and Davis (1990), investigate the home party method, concluding that tie strength affects the buying decision of customers. Recently, Gabbay (1997) studied the effects of social networks on the selling performance of network marketers. He showed that, for some network marketers, strong ties combined with structural holes ('structural ports') were beneficial at the inception stage of their business, but were detrimental for future expansion. Successful entrepreneurs strategically changed their networks over time in order to maintain or build social structures that would be rich sources of social capital. Coughlan and Grayson (1998) have developed a mathematical dynamic model that shows how compensation and other model parameters affect distributor motivation, sales, and network profitability. Grayson (1996) discusses that network marketing provides a setting of high research value.

⁵ These numbers are taken from www.dsa.org and www.wfdsa.org.

⁶ The first network marketing company was founded by William Casselberry and Lee Mytinger. It had been around since 1934, but it was in 1941 that Casselberry and Mytinger developed the 'C&M Marketing Plan,' which aimed at giving their salespeople an incentive to increase the company's sales by finding and training more of them. Under this arrangement salespeople were given a bonus of 3 per cent of the sales of people they had personally recruited. In 1959 two men (Richard DeVos and Jay Van Andel) split from this company, with their group of distributors. They modernized the compensation plan and called their company Amway—short for The American Way—it is now the largest NMO in the world (Biggart, 1989; Clothier, 1992).

⁷ Charles Ponzi offered extremely high rates of return to investors supposedly by buying and selling international postal reply coupons at different rates due to the effects of the First World War. Starting with only \$150, he sold notes making their holders eligible for a 50 percent return within 90 days but never bought any coupons with the money. He used money received from later investors to pay off the earlier ones after 45 days already, building confidence in his business. Since many early investors received their promised returns much sooner than 90 days, the scam was extremely successful in the nine months before Ponzi was arrested for fraud. In those nine months he had received an amount exceeding \$9,000,000. Of course he owed 10 times that amount to the later investors in the scam, who were never paid.

A second phenomenon with a negative impact on network marketing has been the structure of operation of any chain letter. This is a procedure whereby each participant either directly or indirectly contributes a certain amount of money to earlier participants, and at later stage is supposed to receive a large some of money from later participants. The illegality of chain letters was acknowledged in a federal act of 1976.

⁸ A scam involves the use of paper profits to continue financial speculation in a chain of transactions. It usually relates to selling an investment opportunity in which no goods or services are sold. The payment only grants the right to sell the opportunity to invest. As long as entrepreneurs are paid royalties only on the sales of their recruits and not for merely bringing them into the organization they are legal businesses. For example the Federal Trade Commission held hearings in 1979 to determine whether Amway Corporation as a network organization is considered a pyramid. The network character of the financial relationship, it found, is not illegal. It is illegal only when payment for no product or service of value is anticipated.

⁹ The word 'sharing' is commonly used by various network marketing firms. For instance, see the ample use of the word in the quote we extracted from the Usana brochure.

¹⁰ This is true for income of individual distributors. However, many non public NMOs are secretive about the earnings of their distributors (Bloch, 1996; Croft and Woodruffe, 1996).